



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Required Report - public distribution

Date: 1/29/2003

GAIN Report #PE3001

## Peru

## Grain and Feed

## Annual

## 2003

Approved by:

**Lawrence D. Fuell**

**U.S. Embassy**

Prepared by:

Gaspar E. Nolte

---

### Report Highlights:

**Due to unusual international prices, U.S. wheat lost ground in the Peruvian market in 2002, but it is expected to recover in 2003. Wheat imports from the U.S. are forecast at 500,000 MT in MY 2003 (July/June). Corn imports are forecast at 750,000 MT in MY 2003. Rice imports continue declining, total imports for MY 2003 are forecast at about 36,000 MT.**

---

Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Lima [PE1], PE

## **Executive Summary**

Wheat imports for Marketing Year 2002/2003 (July/June) are forecast at 1.45 Million Metric Tons (MMT). Peru's steady economical growth will drive this increase. Though wheat consumption has been rather steady at around 1.2 million MT for a few years, it increased to 1.4 in 2001 and is expected to grow as the economy recovers. Looking at the per capita consumption of some products (bread only 38 kilograms per annum), there is plenty of room for growth.

Post forecasts corn imports to reach 750,000 MT during MY (October/September) 2002/2003. Though corn consumption is expected to increase as the Peruvian economy recovers, due to an agreement signed between corn producers and poultry producers, and sponsored by the government, a considerable reduction in corn imports is expected in the up coming years. These agreement aims to increase local production to a level of self-sufficiency within five years.

Though rice imports into Peru continue their downward trend, imports for MY2003 are forecast to reach 36,000 MT, an increase of ten percent from the previous year. The decrease in imports, that began in 1996, is the result of a government policy to encourage rice production through credits for seeds and fertilizers.

PSD Table						
Country	Peru					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	154	154	160	165	0	160
Beginning Stocks	200	193	200	193	200	278
Production	194	194	190	185	0	170
TOTAL Mkt. Yr. Imports	1500	1406	1500	1400	0	1450
Jul-Jun Imports	1500	1406	1500	1400	0	145
Jul-Jun Import U.S.	0	559	0	210	0	500
TOTAL SUPPLY	1894	1793	1890	1778	200	1898
TOTAL Mkt. Yr. Exports	25	0	25	0	0	0
Jul-Jun Exports	25	0	25	0	0	0
Feed Dom. Consumption	125	190	125	180	0	160
TOTAL Dom. Consumption	1669	1600	1665	1500	0	1616
Ending Stocks	200	193	200	278	0	282
TOTAL DISTRIBUTION	1894	1793	1890	1778	0	1898

Import Trade Matrix	
Country	Peru
Commodity	Wheat
Time period	2002
Imports for:	
U.S.	210120
Others	
Argentina	504259
Canada	431104
Ukraine	201690
Pakistan	60000
Total for Others	1197053
Others not Listed	1250
Grand Total	1408423

## **Wheat**

### **Production**

Wheat is a minor crop in Peru. Production in 2003 is forecast at 170,000 MT and is likely to remain around that level in the near future. Most wheat produced in Peru, grown in the southern highlands of the Andes under very rudimentary cultural practices, is soft, not suitable for milling and consumed directly in soups and purees.

Crop area will probably remain at current levels, 160,000 hectares, in 2003. Wheat area may vary significantly from year to year depending on prices and producers' profit expectations. Average yields in 2002 were 1.12 MT per hectare, somewhat lower than the previous year

Alicorp, Peru's largest wheat miller, has started a program to produce durum wheat in southern Peru. Currently they are producing around 8,000 MT but expect to reach 25,000 in the upcoming years. Alicorp provides improved seed and technical assistance to local producers and contracts their production in advance.

### **Consumption**

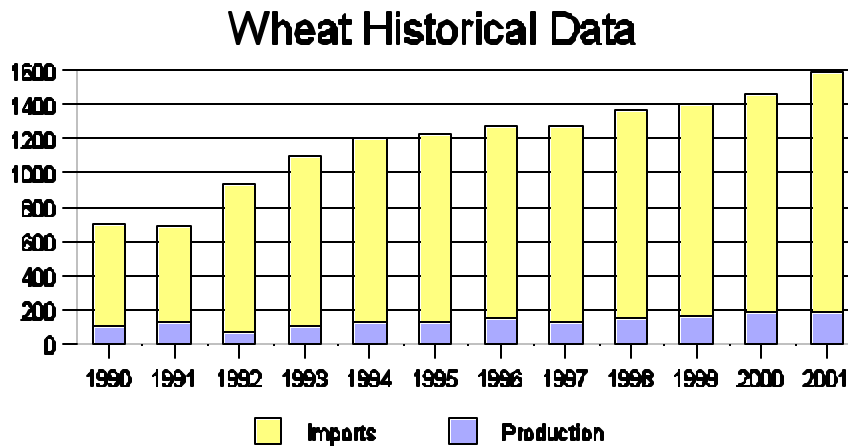
A strong recession began in Peru in 1999, and continued throughout 2001. As a result, flour and pasta production remain flat. Flour consumption was about 900,000 MT in 2002. Pasta consumption in 2002 was 250,000 MT. In an effort to try to maintain consumption levels, many wheat mills have had to reduce in profit margins and in many cases operate below their break even point.

With 10 kilograms per capita, Peru continues to be the second largest pasta consumers in South America. Bread consumption on the other hand, about 38 kilograms per annum, remains at very low levels compared with consumption in other countries in the area. Wheat disappearance in Peru has remained constant over the last three years, due to population growth.

### **Trade**

Peru's wheat imports in 2002 reached 1.4 MMT, about the same as the previous year. With 504,259 MT, Argentina was the largest wheat exporter to Peru followed by Canada with 431,104 and the U.S. with 210,120 MT.

Due to unusual high prices the U.S. lost a considerable market share in 2002 which should recover next year. This market share was taken by Ukrainian and Pakistani wheat. Millers report low flour yields and poor quality from these wheats. Peru's total wheat imports in MY 2002/2003 are forecast to reach 1.45 MMT, with at least 500,000 MT coming from the U.S.



## Policy

The GOP has no specific policy to promote production of wheat. There have been some efforts, such as rotating funds, to assist poor peasants with small credits but they have not had a major impact on production.

As part of the Andean Community, Peru is negotiating a trade agreement with Mercosur. Grains will probably be one of the most important agricultural trade issues, especially for Argentina. But since Peru has been the most progressive country in the region in reducing its tariff rates, it is very unlikely that any further reduction or preference will be granted, especially for wheat, Peru's largest agricultural import and revenue source.

Peru exports very limited quantities of pasta to Chile and Ecuador, but due to a higher import duty its prices are not very competitive. Wheat in Peru is assessed 25 percent ad valorem plus 18 percent value-added tax (VAT), compared with Chile and Ecuador where the ad-valorem is only 10 percent. Moreover, the national producers' association is constantly calling for a tariff raise for wheat. Though the Minister of Agriculture has repeatedly said that a tariff raise would have a negative impact in consumers especially those with lower income, some members of Congress are sympathetic with this idea and are constantly trying to push this increase.

PSD Table						
Country	Peru					
Commodity	Corn				(1000 HA)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		10/2001		10/2002		10/2003
Area Harvested	518	565	560	512	0	520
Beginning Stocks	100	36	145	16	155	15
Production	1387	1340	1450	1355	0	1500
TOTAL Mkt. Yr. Imports	858	700	900	820	0	750
Oct-Sep Imports	858	700	900	820	0	750
Oct-Sep Import U.S.	235	300	0	210	0	350
TOTAL SUPPLY	2345	2076	2495	2191	155	2265
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	2010	1700	2150	1950	0	1950
TOTAL Dom. Consumption	2200	2060	2340	2176	0	2230
Ending Stocks	145	16	155	15	0	35
TOTAL DISTRIBUTION	2345	2076	2495	2191	0	2265

Import Trade Matrix	
Country	Peru
Commodity	Corn
Time period	2002
Imports for:	
U.S.	210802
Others	
Argentina	608761
Total for Others	608761
Others not Listed	1117
Grand Total	820680

## **Corn**

### **Production**

Corn production in Peru is estimated at 1.5 MMT for MY (October/September) 2002/2003. Among the several types of corn produced in Peru, the most important varieties are starchy corn, with production estimated at 255,000 MT in 2002, which is consumed directly by humans, and yellow corn with production estimated at 1.1 MMT for the same period of time which is primarily used in the animal feed industry.

The harvested area in 2002 was 291,000 hectares and 221,000 hectares for yellow and starchy corn respectively compared with 286,000 hectares and 219,000 hectares in the previous year. Yields are expected to be around 3.38 MT per hectare for yellow corn and 1.15 MT per hectare for starchy corn. Corn is mainly grown along the Peruvian coast and in the range forest on the eastern slopes of the Andes.

### **Consumption**

Peru has a 26 million chicken-per-month poultry market, which is the major user of yellow corn. Corn consumption is estimated at 2.3 MMT for 2003. Poultry meat continues to be one the cheapest source of protein in the Peruvian diet. A major problem poultry producers have to face is competition from informal producers, who account for about 30 percent of the poultry meat industry. Corn demand correlate strongly with poultry demand.

### **Trade**

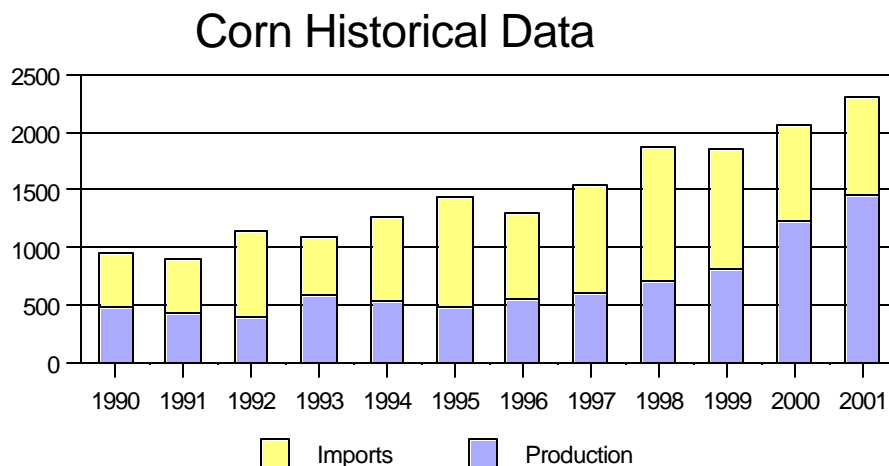
In CY2002, Peru imported 820,680 MT of yellow corn, of which 210,802 MT came from the U.S. and 608,761 MT from Argentina. Feed producers and large poultry operations claim that corn from Argentina comes with less broken kernels. Post forecasts corn imports to reach 750,000 MT during MY (October/September) 2002/2003, this import reduction is explained by higher local production.

### **Policy**

Though the GOP does not have any direct subsidy or assistance program to encourage corn production, there has been some support through rotating credit funds. The Ministry of Agriculture has sponsored an agreement between corn and poultry producers to encourage corn production in the eastern region of the country. This area is excellent for corn production, but transportation infrastructure is poor and in some cases does not exist.

So far the program to encourage corn production has been successful. In the some areas, specially on the eastern slopes of the Andes, the few poultry producer in these areas are purchasing local corn. On the coast, the third largest producer in the country is purchasing only local corn, through an agreement signed with corn producers in the area. The largest producer in the country, San Fernando, with about forty percent of total poultry production has started some trials to produces corn .

Corn imports are assessed 12 percent import duty on CIF basis, plus a variable levy applied under the Price Band System. The Price Band System is an import tax, that depends on international prices, which assures that the import price of specific commodities, after payment of the levy, will equal a predetermined minimum import price. This tax, which is imposed on certain "sensitive" products, is expressed in dollars per metric ton.





PSD Table						
Country	Peru					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2002		01/2003		01/2004
Area Harvested	310	310	315	315	0	320
Beginning Stocks	235	32	225	92	220	97
Milled Production	1500	1500	1530	1550	0	1555
Rough Production	2174	2174	2217	2246	0	2254
MILLING RATE (.9999)	6900	6900	6900	6900	0	6900
TOTAL Imports	40	55	40	32	0	36
Jan-Dec Imports	40	55	40	32	0	36
Jan-Dec Import U.S.	0	1	0	2	0	5
TOTAL SUPPLY	1775	1587	1795	1674	220	1688
TOTAL Exports	50	25	50	20	0	20
Jan-Dec Exports	50	25	50	20	0	20
TOTAL Dom. Consumption	1500	1470	1525	1557	0	1578
Ending Stocks	225	92	220	97	0	90
TOTAL DISTRIBUTION	1775	1587	1795	1674	0	1688

Import Trade Matrix	
Country	Peru
Commodity	Rice, Milled
Time period	2002
Imports for:	
U.S.	2074
Others	
Uruguay	30500
Total for Others	30500
Others not Listed	
Grand Total	32574

## Rice

### Production

Rice production for MY (January/December) 2003 is forecast at 1.55 MMT (milled basis), increasing 50,000 MT compared to the previous year. Rice in Peru is surface irrigated, which depends on the supply of water draining from rivers in the Andes Mountains. Most of the rice in Peru is harvested May through September. Most of the water reservoirs in the northern part of country are currently above 60 percent of their full capacity as of February which is more than adequate, since the planting season has already ended.

Major rice production areas in Peru are Lambayeque and Piura in the northern region, and Arequipa in the south. Average yields are 6.16 metric tons per hectare, but some farmers have yields as high as 14 metric tons per hectare (paddy rice). Rice quality and yields vary greatly, as much of the production is carried out by small producers, with input levels dependent on prices and economic conditions.

### Consumption

Per capita rice consumption is estimated at 48 kilograms. Rice is sold traditionally in small markets, weighed out and bagged from 50 kilos sacks. In recent years, with the expansion of supermarket chains in Peru, several consumer habits, including the sale of rice, has changed. There is a growing demand for prepackaged one kilogram bags of rice, which now total 18 percent of all rice sales. Higher quality rice, including U.S. rice, is generally marketed in this way.

### Trade

Peru imported about 32,558 MT of rice in 2002, nearly fifty percent of the previous year. Most of the imported rice, about 30,500 came from Uruguay. The U.S. is a minor supplier with less than 2,000 MT. The largest rice importer, who owns the leading brand for bagged rice, has a long term relationship with an Uruguayan rice exporter which not only provides good quality rice at a competitive price, but also grants them credit. Since the GOP implemented a ban on Asian rice based on phytosanitary issues, the imported rice market has been shared by the U.S. and Uruguay, but now is been taken over almost entirely by Uruguay due to lower prices.

Small rice importers are interested in purchasing paddy rice from the U.S. which is ban for sanitary reasons by SENASA, the Peruvian SPS authority. Post has been working closely with the industry and SENASA to lift this ban. Currently a pest risk assessment is being done which will hopefully result in elimination of the ban and additional sales of U.S. rice.

Although there are no official statistics, post estimates that about 20,000 MT of Peruvian rice is smuggled to Ecuador. Rice imports for MY2003 are forecast to reach 36,000 MT, an increase of ten percent from the previous year.

## Policy

The GOP does not have any direct production subsidy or support programs in the agricultural sector. The government does buy rice from local producers to support social feeding programs, but the quantities purchased are very limited. Production credits are very difficult to obtain in the agricultural sector. This has restrained farmers from changing from rice to more profitable crops, such as fruits and vegetables.

Since CY1998 the GOP has been encouraging rice production through input credits and rotating funds. Though production has grown sharply during the last 3 years, it has been an economic disaster for producers. Having flooded the market with rice and with large carry over stocks and no possibility of exporting, other than what is smuggled into Ecuador through the northern border, prices have plummeted making almost impossible the recovery of producers' investment. As a consequence, farmers are not able to honor their credits and in many cases are losing their land, in addition to their already eroded reputation with the formal financial system.

Rice imports are assessed 25 percent import duty on CIF plus a variable levy applied under the Price Band System. The Price Band System is an import tax, that depends on international prices, which assures that the import price of specific commodities, after payment of the levy, will equal a predetermined minimum import price. This tax, which is imposed on certain "sensitive" products, is expressed in dollars per metric ton. The current levy for rice is \$122 per MT.

